

## 98TH GENERAL ASSEMBLY State of Illinois 2013 and 2014 HB5690

by Rep. Robyn Gabel

## SYNOPSIS AS INTRODUCED:

New Act

Creates the Sugar-Sweetened Beverages, Syrups, and Powder Tax Law. Imposes a tax on distributors of bottled sugar-sweetened beverages, syrups, or powders. Provides that the tax is imposed at the rate of \$0.01 per ounce of bottled sugar-sweetened beverages sold or offered for sale to a retailer for sale in the State to a consumer. Provides that the distributor shall add the amount of the tax to the price of sugar-sweetened beverages sold to a retailer, and the retailer shall pass the amount of the tax through to the consumer. Requires those distributors to obtain permits. Contains provisions concerning the distribution of the proceeds. Effective January 1, 2015.

LRB098 17232 HLH 52325 b

FISCAL NOTE ACT MAY APPLY

1 AN ACT concerning revenue.

## Be it enacted by the People of the State of Illinois, represented in the General Assembly:

- 4 Section 1. Short title. This Act may be cited as the
- 5 Sugar-Sweetened Beverages, Syrups, and Powder Tax Law.
- Section 5. Findings and purpose. The General Assembly finds that:
- 8 Over the past 30 years, the obesity rate in the United
- 9 States has substantially increased. The prevalence of adult
- 10 obesity has more than doubled during that time. According to
- 11 statistics compiled by the Centers for Disease Control, nearly
- 12 28% of Illinois' adult residents in 2012 were considered obese
- 13 (body mass index (BMI) of 30 and above) and the rate was even
- 14 higher among African American (40.5%) and Hispanic (31.2%)
- 15 residents.
- 16 For children, the increase in obesity has been even more
- dramatic, with the obesity rate among children ages 6-11 more
- 18 than quadrupling over the last four decades. The State of
- 19 Illinois is not immune to the problem. 21% of Illinois children
- 20 (age 0-17 years) are obese, the fourth worst rate in the
- 21 nation.
- 22 Obese children are at least twice as likely as non-obese
- 23 children to become obese adults. Research indicates that the

likelihood of an obese child becoming an obese adult increases with age; adolescents who are obese have a greater likelihood of being obese in adulthood, as compared to younger children.

The obesity epidemic has led to a dramatic increase in obesity-related health conditions, such as type 2 diabetes, asthma, and heart disease. These health conditions costs the nation billions of dollars in health care costs and lost productivity. Overweight and obesity account for \$147 billion in health care costs nationally, or 9 percent of all medical spending, per year. Obesity-related annual medical expenditures in the State of Illinois are estimated at \$3.4 billion in 2003 dollars. Almost 60% of these costs are paid by public funds through Medicare and Medicaid.

Numerous studies have established a link between obesity and consumption of sweetened beverages such as soft drinks, energy drinks, sweet teas and sports drinks. One meta-analysis of eight studies examining the role of sugar-sweetened beverage consumption on health found that consumption was significantly associated with type 2 diabetes based on over 15,000 reported cases of this condition. Some studies have shown increased risk for heart disease independent of weight status, suggesting that sugar-sweetened beverages are unhealthy even for people who otherwise maintain a normal weight.

Sugar-sweetened beverages are the number one source of added sugar in the American diet (46% of added sugars). A study of a five-year period between 1999 and 2004 showed that

children and adolescents consumed 10-15% of their daily caloric intake from sweetened beverages, which offer little or no nutritional value and massive quantities of added sugars. For example, a single 12-ounce can of soda contains the equivalent of approximately 10 teaspoons of sugar; the American Heart Association recommends that women consume no more than 6 teaspoons of added sugar per day, men consume no more than 9 teaspoons of added sugar per day, and children consume no more than 4 teaspoons of added sugar a day.

A study found that a penny-per-ounce excise tax on sugar-sweetened beverages in Illinois would result in a 23.5 percent reduction in sugar-sweetened beverage consumption, 185,127 fewer obese Illinoisans (a 9.3% reduction in youth obesity and 5.2% reduction in adult obesity), 3,442 fewer incidences of diabetes, and a \$150.8 million reduction in obesity-related healthcare costs.

It is the intent of the Legislature, by adopting the Sugar-Sweetened Beverages, Syrups and Powder Tax Law, creating the Illinois Wellness Fund, and providing targeted prevention and additional health care funding to Medicaid, to diminish the human and economic costs of obesity in the State of Illinois. This Act is intended to discourage excessive consumption of Sugar-Sweetened Beverages by increasing the price of these products and by creating a dedicated revenue source for programs designed to prevent and treat obesity and for the state Medicaid program to reduce the burden of related health

- 1 conditions.
- 2 Section 10. Definitions. For purposes of this Act:
- 3 "Advisory Board" means the Board established under Section
- 4 75.
- 5 "Bottle" means any closed or sealed container regardless of
- 6 size or shape, including, without limitation, those made of
- 7 glass, metal, paper, plastic, or any other material or
- 8 combination of materials.
- 9 "Bottled sugar-sweetened beverage" means any
- 10 sugar-sweetened beverage contained in a bottle that is ready
- 11 for consumption without further processing such as, without
- 12 limitation, dilution or carbonation.
- "Caloric sweetener" means any caloric substance suitable
- 14 for human consumption that humans perceive as sweet and
- includes, without limitation, sucrose, fructose, glucose, or
- 16 other sugars. "Caloric sweetener" excludes non-caloric
- 17 sweeteners. For purposes of this definition, "caloric" means a
- 18 substance which adds calories to the diet of a person who
- 19 consumes that substance.
- "Consumer" means a person who purchases a sugar-sweetened
- 21 beverage for consumption and not for sale to another.
- "Council" means the Council of State Agencies established
- 23 under Section 70.
- "Department" means the Department of Revenue.
- 25 "Distributor" means any person, including manufacturers

- 1 and wholesale dealers, who receives, stores, manufactures,
- 2 bottles, or distributes bottled sugar-sweetened beverages,
- 3 syrup, or powder, for sale to retailers doing business in the
- 4 State, whether or not that person also sells such products to
- 5 consumers.
- 6 "Fund" means the Illinois Wellness Fund.
- 7 "Non-caloric sweetener" means any non-caloric substance
- 8 suitable for human consumption that humans perceive as sweet
- 9 and includes, without limitation, aspartame, saccharin,
- 10 stevia, and sucralose. "Non-caloric sweetener" excludes
- 11 caloric sweeteners. For purposes of this definition,
- "non-caloric" means a substance that contains fewer than 5
- 13 calories per serving.
- 14 "Person" means any natural person, partnership,
- 15 cooperative association, limited liability company,
- 16 corporation, personal representative, receiver, trustee,
- assignee, or any other legal entity.
- "Place of business" means any place where sugar-sweetened
- 19 beverages, syrups, or powder are manufactured or received for
- 20 sale in the state.
- 21 "Powder" means any solid mixture of ingredients used in
- 22 making, mixing, or compounding sugar-sweetened beverages by
- 23 mixing the powder with any one or more other ingredients,
- 24 including without limitation water, ice, syrup, simple syrup,
- 25 fruits, vegetables, fruit juice, vegetable juice, carbonation
- or other gas.

"Retailer" means any person who sells or otherwise dispenses in the State a sugar-sweetened beverage to a consumer whether or not that person is also a distributor as defined in

4 this Section.

"Sale" means the transfer of title or possession for valuable consideration regardless of the manner by which the transfer is completed.

"State" means the State of Illinois.

"Sugar-sweetened beverage" means any nonalcoholic beverage, carbonated or noncarbonated, which is intended for human consumption and contains any added caloric sweetener. As used in this definition, "nonalcoholic beverage" means any beverage that contains less than one-half of one percent alcohol per volume. The term "sugar-sweetened beverage" does not include:

- (1) beverages sweetened solely with non-caloric sweeteners;
- (2) beverages consisting of 100% natural fruit or vegetable juice with no added caloric sweetener; for purposes of this paragraph, "natural fruit juice" and "natural vegetable juice" mean the original liquid resulting from the pressing of fruits or vegetables, or the liquid resulting from the dilution of dehydrated natural fruit juice or natural vegetable juice;
- (3) beverages in which milk, or soy, rice, or similar milk substitute, is the primary ingredient or the first

listed ingredient on the label of the beverage; for purposes of this Act, "milk" means natural liquid milk regardless of animal or plant source or butterfat content, natural milk concentrate, whether or not reconstituted, regardless of animal or plant source or butterfat content, or dehydrated natural milk, whether or not reconstituted and regardless of animal or plant source or butterfat content;

- (4) coffee or tea without added caloric sweetener;
- (5) infant formula;
- (6) medically necessary foods, as defined in the federal Orphan Drug Act; and
- (7) water to which neither carbonation nor any other substance has been added, except for minerals and non-caloric flavoring agents.
- "Syrup" means a liquid mixture of ingredients used in making, mixing, or compounding sugar-sweetened beverages using one or more other ingredients including, without limitation, water, ice, a powder, simple syrup, fruits, vegetables, fruit juice, vegetable juice, carbonation, or other gas.
- 21 Section 15. Permit required.
  - (a) Every distributor doing business in the State shall file with the Department an application for a permit to engage in such business, for each place of business owned and operated by the distributor before the sooner of January 1, 2015 or a

distributor's first acts which constitute the doing of business in the State. An application for a permit shall be filed on forms to be furnished by the Department for that purpose. An application must be subscribed and sworn to by a person with legal authority to bind the business. The application shall identify the owners of the applicant, the applicant's mailing address, the place of business to which the permit shall apply, and the nature of the business in which engaged, and any other information the Department may require for the enforcement of this Act.

- (b) Upon receipt of an application and any permit fee hereafter provided for, the Department may issue to the applicant, for the place of business designated, a non-assignable permit, authorizing the sale of sugar-sweetened beverages, syrups, and powder in the State. No distributor shall sell any sugar-sweetened beverage, syrup, or powder without first obtaining a permit to do so under this Act. Permits issued pursuant to this Section shall expire on January 31 of each year and may be renewed annually.
- (c) A permit may not be transferred from one person to another, and a permit shall at all times be prominently displayed in a distributor's place of business. The Department may refuse to issue a permit to any Person previously convicted of violations of this Act under such procedures as the Department may establish by regulation.

- 1 Section 20. Tax imposed.
  - (a) There is hereby imposed an excise tax on every distributor for the privilege of selling the products governed by this Act in the State, calculated as follows:
    - (1) \$0.01 per ounce of bottled sugar-sweetened beverages sold or offered for sale to a retailer for sale in the State to a consumer.
    - (2) The tax on syrup and powder sold or offered for sale to a retailer for sale in the State to a consumer, either as syrup or powder or as a sugar-sweetened beverage derived from that syrup or powder, is equal to \$0.01 per ounce for each ounce of sugar-sweetened beverage produced from that syrup or powder; for purposes of calculating the tax, the volume of sugar-sweetened beverage produced from syrup or powder shall be the larger of (i) the largest volume resulting from use of the syrup or powder according to any manufacturer's instructions or (ii) the volume actually produced by the retailer, as reasonably determined by the Department.
    - (3) The tax amounts set forth in this Section shall be adjusted annually by the Department in proportion with the Consumer Price Index: All Urban Consumers for All Items for the Midwest Statistical Area, as reported by the United States Bureau of Labor Statistics or any successor to that index.
    - (b) A retailer that sells bottled sugar-sweetened

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- 1 beverages, syrups, or powders in the State to a consumer, on
- 2 which the tax imposed by this Section has not been paid by a
- distributor, is liable for the tax imposed in subsection (a) at
- 4 the time of sale to a consumer.
  - Section 25. Pass-through of the tax. A distributor shall add the amount of taxes levied by this Act to the price of sugar-sweetened beverages sold to a retailer, and the retailer shall pass the amount of the tax through to the consumer as a component of the final retail purchase price. The amount of the taxes may be stated separately on all invoices, signs, sales or delivery slips, bills, and statements that advertise or indicate the price of those beverages.
- 13 Section 30. Report of sales and tax remittances.
- 14 (a) Any distributor or retailer liable for the tax imposed 15 by this Act shall, on or before the last day of March, June, October and December of each year, return to the Department 16 17 under oath of a person with legal authority to bind the distributor or retailer, a statement containing its name and 18 19 place of business, the quantity of sugar-sweetened beverages, 20 syrup, and powder subject to the excise tax imposed by this Act 21 sold or offered for sale in the 3 months immediately preceding the month in which the report is due, and any other information 22 23 required by the Department, along with the tax due.
  - (b) The State Treasurer shall credit the proceeds of the

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- 1 tax to the Illinois Wellness Fund and to the Illinois Medicaid
- 2 program, as described in Section 65.
- Section 35. Records of distributors. Every distributor and every retailer subject to this Act shall maintain for not less than 2 years accurate records, showing all transactions that gave rise, or may have given rise, to tax liability under this
- 7 Act. Such records are subject to inspection by the Department
- 8 at all reasonable times during normal business hours.
- 9 Section 40. Exemptions. The following shall be exempt from 10 the tax imposed by Section 20:
  - (1) Bottled sugar-sweetened beverages, syrups, and powder sold by a distributor or a retailer expressly for resale or consumption outside of the State.
  - (2) Bottled sugar-sweetened beverages, syrups, and powder sold by a distributor to another distributor that holds a permit issued under Section 15, if the sales invoice clearly indicates that the sale is exempt. If the sale is to a person who is both a distributor and a retailer, the sale shall also be tax exempt and the tax shall be paid when the purchasing distributor-retailer resells the product to a retailer or a consumer. This exemption does not apply to any other sale to a retailer.
  - Section 45. Penalties.

- (a) Any distributor, retailer, or other person subject to the provisions of this Act who fails to pay the entire amount of tax imposed by this Act by the date that payment is due, fails to submit a report or maintain records required by this Act, does business in the State of Illinois without first obtaining a permit as required by this Act, or violates any other provision of this Act, or rules and regulations adopted by the Department for the enforcement of this Act, shall be guilty of a misdemeanor and shall also be liable for the penalties set forth and incorporated by reference into this section.
- (b) Incorporation by reference. All of the provisions of Sections 4, 5, 5a, 5b, 5c, 5d, 5e, 5f, 5g, 5h, 5i, 5j, 6, 6a, 6b, 6c, 8, 9, 10, 11, 11a, and 12 of the Retailers' Occupation Tax Act, and all applicable provisions of the Uniform Penalty and Interest Act that are not inconsistent with this Act, apply to Distributors of Sugar-Sweetened Beverages to the same extent as if those provisions were included in this Act. References in the incorporated sections of the Retailers' Occupation Tax Act to retailers, to sellers, or to persons engaged in the business of selling tangible personal property mean Distributors and/or Retailers when used in this Act. References in the incorporated sections to sales of tangible personal property mean sales of Sugar-Sweetened Beverages, Syrups, and/or Powder when used in this Act.
  - (c) In addition to any other penalty authorized by law, a

- permit issued pursuant to Section 15 shall be suspended or revoked if any court of competent jurisdiction determines, or the Department finds based on a preponderance of the evidence, after the permittee is afforded notice and an opportunity to be heard, that the permittee, or any of the permittee's agents or employees, has violated any of the requirements, conditions, or prohibitions of this chapter.
  - (1) For a first violation of this Act within any 60-month period, the permit shall be suspended for 30 days.
  - (2) For a second violation of this Act within any 60-month period, the permit shall be suspended for 90 days.
  - (3) For a third violation of this Act within any 60-month period, the permit shall be suspended for one year.
  - (4) For a fourth or subsequent violation of this Act within any 60-month period, the license shall be revoked.
- (d) A decision of the Department under this Section is a final administrative decision and is subject to review under the Administrative Review Law.
- Section 50. Unpaid taxes a debt. All taxes and penalties imposed under the provisions of this Act remaining due and unpaid shall constitute a debt to the State, which may be collected from the person owing same by suit or otherwise.
- Section 55. Records of Department. At the end of each

- month, the State Auditor General shall check the books and records of the Department and its accounts with any bank or banks, and shall verify the amounts collected pursuant to this Act and paid into the Illinois Wellness Fund. Any duty herein required of the State Auditor General may be performed by any duly trained clerk in his office, designated by the State Auditor General for that purpose.
- 8 Section 60. Revenue distribution and establishment of 9 Illinois Wellness Fund. The Illinois Wellness Fund is hereby 10 created as a special fund in the State treasury. Fifty percent 11 of the moneys collected pursuant to the taxes imposed by 12 Section 20 and all interest on those moneys, shall be paid into 1.3 the Illinois Wellness Fund. The remaining 50% of the moneys 14 collected pursuant to the taxes imposed by Section 20 and all 15 interest on those moneys, shall be paid to the Illinois 16 Medicaid program. All costs to implement this Act shall be paid for prior to distribution of the funds to the Illinois Wellness 17 18 Fund and Medicaid program.
- 19 Section 65. Governance and expenditure of Illinois 20 Wellness Fund.
- 21 (a) Except as otherwise provided in subsection (b), all 22 moneys in the Illinois Wellness Fund shall be used as follows:
- 23 (1) Up to 5% of the moneys collected into the Fund each 24 year shall be dedicated to administration of the Fund by

the Office of the Governor, the Illinois Department of Public Health, the State Board of Education, and the Governance Board.

- (2) At least 3% but not more than 5% of the moneys collected into the Fund shall be dedicated to evaluation of the impact of the Act on the health and wellness of Illinoisans. Evaluation of the Act shall be conducted by an independent evaluator selected by the Department of Public Health in consultation with the Council and Advisory Board. The evaluation shall encompass the impact of the Wellness Fund and the effect of the tax on the consumption of sugar-sweetened beverages. The evaluator shall report annually to the Council of State Agencies and the Advisory Board on the progress and results of the evaluation.
- (3) At least 3% but not more than 5% of the moneys collected into the Fund shall be dedicated to providing technical assistance to and statewide coordination of strategies and activities of recipients of funding from the Fund.
- (4) The remainder of the moneys in the Fund shall be used for the following purposes:
  - (A) school health and wellness, including increased consumption of healthy foods, increased physical activity and physical education, increased health education, improved health, mental health, oral health, and social services in schools, and school

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facility improvements that support health;

- (B) public health leadership and infrastructure for obesity and chronic disease prevention; this funding shall support leadership, coordination, technical assistance, quality improvement, training for programs or coalitions led by health departments, associations, or institutes that use educational, environmental, policy, and evidence-based public health approaches that achieve the following goals: eliminating racial, ethnic, and socioeconomic disparities in obesity and chronic improving access to and consumption of diseases; healthy, safe, and affordable foods; reducing access to and consumption of calorie-dense, nutrient-poor foods; encouraging physical activity; decreasing sedentary behavior; raising awareness about the importance of nutrition and physical activity to chronic disease prevention; supporting local food production and distribution; supporting systems clinical preventive services;
- (C) oral health improvement, including increased access to oral health education, dental sealants for children, and use of community prevention and health education strategies that reduce risk factors for oral and pharyngeal cancers;
  - (D) community nutrition and access to healthy

foods, including nutrition education, healthy cooking programs, healthy vending, healthy food procurement, education regarding shopping for healthy foods, and increasing access to healthy foods;

- (E) physical activity in communities, including active transportation, community walkability and bike-ability initiatives, multi-use trails, joint-use agreements, safe routes to schools, educational programs that promote physical activity, environmental changes that increase physical activity;
- (F) worksite wellness, including promotion of nutrition, physical activity and preventive services in worksites, workplace policies and environmental changes that support employee wellness;
- (G) local food systems, including promotion of access to and consumption of local foods, farm-to-school and farm-to-institution programs, healthy food procurement, community gardens, , urban agriculture projects, community-supported agriculture programs, farmers markets, food hubs, beginning farmer training programs, and farm stands;
- (H) regional public health hubs as described in the Illinois Alliance for Health State Healthcare Innovations Plan.
- (b) In the first year after the Fund is established, the allocation shall be as follows:

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1	(1)	10%	fo	r adm:	inis	stration,	ev	aluat	ion	and	technical
2	support	of	the	Fund,	as	provided	in	item	(1)	of	subsection
3	(a);										

- (2) 20% for school health and wellness;
- 5 (3) 20% for public health leadership and infrastructure for obesity and chronic disease prevention;
  - (4) 10% for oral health;
- 8 (5) 10% for community nutrition and access to healthy 9 foods;
- 10 (6) 10% for physical activity in communities;
- 11 (7) 10% for local food systems;
- 12 (8) 5% for worksite wellness; and
- 13 (9) 5% for regional health hubs.
- (c) All moneys in the Illinois Wellness Fund shall be expended only for the purposes expressed in this Act and shall be used only to supplement existing levels of service and not to supplant current federal, State, or local funding for existing levels of services as provided in fiscal year 2014. Entities that are eligible to receive moneys from the Fund
- 21 (1) local, regional, and State governments or governmental departments;
- 23 (2) non-profit organizations;

include:

- 24 (3) school districts and schools;
- 25 (4) federally Qualified Health Centers, community 26 health centers, and organizations which operate a

1	school-based	health	center	certified	by	the	Illinois
2	Department of	Public	Health;				

- (5) hospitals;
- 4 (6) Illinois farms producing primarily fruits,
  5 vegetables and tree nuts for direct human consumption by
  6 Illinois residents; and
- 7 (7) policy, research, or training institutes or 8 centers.

## 9 Section 70. Illinois Wellness Fund; governance;

- (a) The Illinois Wellness Fund shall be governed by a Council of State Agencies with input from a multi-sector Advisory Board. The Council of State Agencies shall be comprised of one representative from each of the following Departments: the Department of Public Health, the Department of Human Services, State Board of Education, the Department on Aging, the Department of Transportation, and the Department of Agriculture.
  - (b) The Council's functions shall include:
  - (1) distribution of the Illinois Wellness Fund monies to eligible entities each year, including:
    - (A) allocation of funds for staff and resources to State agencies responsible for administering the Wellness Fund, including a Health in All Policies Coordinator to support the Council of State Agencies and Advisory Board;

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(B)	selec	ction	of	and	all	Loca <sup>.</sup>	tion	to	elig	ible
entities	, inc	luding	org	ganiza	tio	ns,	asso	ociatio	ons,	and
universit	ties,	that	pro	vide	tec	hnic	cal	assist	ance	to
request	for p	roposa	l gı	rantee	es a	and	eval	uation	of	the
impact of	f the 2	Act;								

- (C) distribution of one-half of the funds for public health leadership allocated and infrastructure under Section 70 directly to Local Health Departments via an allocation formula developed by the Department of Public Health for the purpose of providing local coordination of Illinois Wellness Fund grantees within their jurisdiction, if any, and for local leadership of educational, environmental, policy, and other evidence-based public approaches;
- (D) distribution of the remaining funds to eligible entities as recommended by the Advisory Board based on a request for proposal process or processes; and
- (E) to advise on the selection of evaluators and provide input on the evaluation design, goals, and methods, at least annually receive and review a progress report on the results of the evaluation.
- (2) Submission of a report to the General Assembly every 3 years on the allocation of the funds and summary results of the impact evaluation of the wellness fund and

1 the tax.

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- Section 75. Expenditures for the Illinois Medicaid Program. Fifty percent of all moneys collected from the tax shall be paid to the Illinois Medicaid program into a Medicaid Fund to include payment for the following services:
- 6 (1) restoring adult dental services and expand
  7 services to include prevention services;
  - (2) providing payments for medical nutrition therapy, care coordination, weight management programs, and other multi-disciplinary obesity treatment programs for overweight and obese patients, including coverage for services from dieticians, social workers, psychologists, and pharmacists;
  - (3) pilot program to cover community-based physical activity and nutrition programs for obese children and adults to change health behaviors (including, but not limited to, cooking classes for obese patients, assistance learning how to shop for healthy foods, participation in the evidence-based Diabetes Prevention Program, Chronic Disease Self-Management Program, and Diabetes Self-Management Program);
  - (4) funding coverage for all US Preventive Services
    Task Force A & B Recommendations; and
  - (5) supporting and expanding language access services for Medicaid recipients.

- 1 Section 80. Rulemaking. The Department of Public Health,
- 2 the State Board of Education, and the Department of Revenue may
- 3 adopt rules to implement the provisions of this Act.
- 4 Section 97. Severability. The provisions of this Act are
- 5 severable under Section 1.31 of the Statute on Statutes.
- 6 Section 99. Effective date. This Act takes effect January
- 7 1, 2015.